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DEC 18 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

December 18, 1998

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, NW  
Room 222  
Washington, D.C. 20554

NOTICE OF EX PARTE  
PRESENTATION

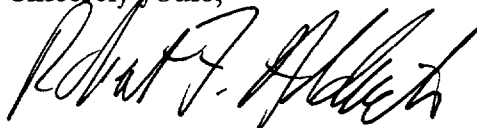
Re: **CC Docket No. 96-128**

Dear Ms. Salas:

On December 18, 1998, Albert Kramer of this law firm, representing APCC, Bruce Renard of Peoples Telephone Company, and George Niden of IMR Telecom, met with Commissioner Gloria Tristani and Legal Advisor Paul Gallant.

We discussed generally the views stated in APCC's Comments, filed July 13, 1998, and Reply Comments, filed July 27, 1998, and record submissions of other parties. The points made are fully described in the attached materials, which were handed out at the meeting.

Sincerely yours,



Robert F. Aldrich

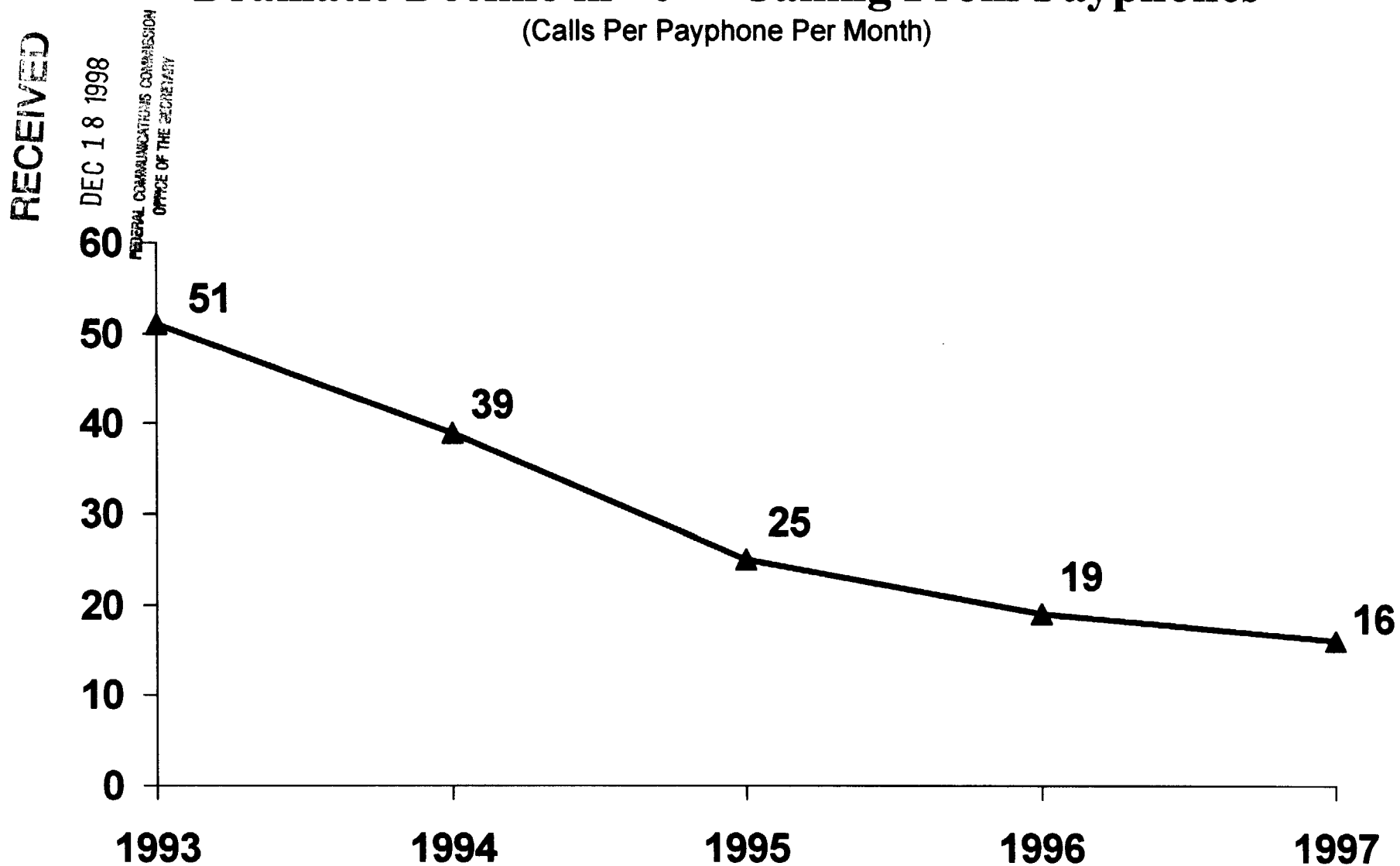
RFA/nw  
Enclosures

cc: Commissioner Gloria Tristani  
Paul Gallant

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# Dramatic Decline in "0+" Calling From Payphones

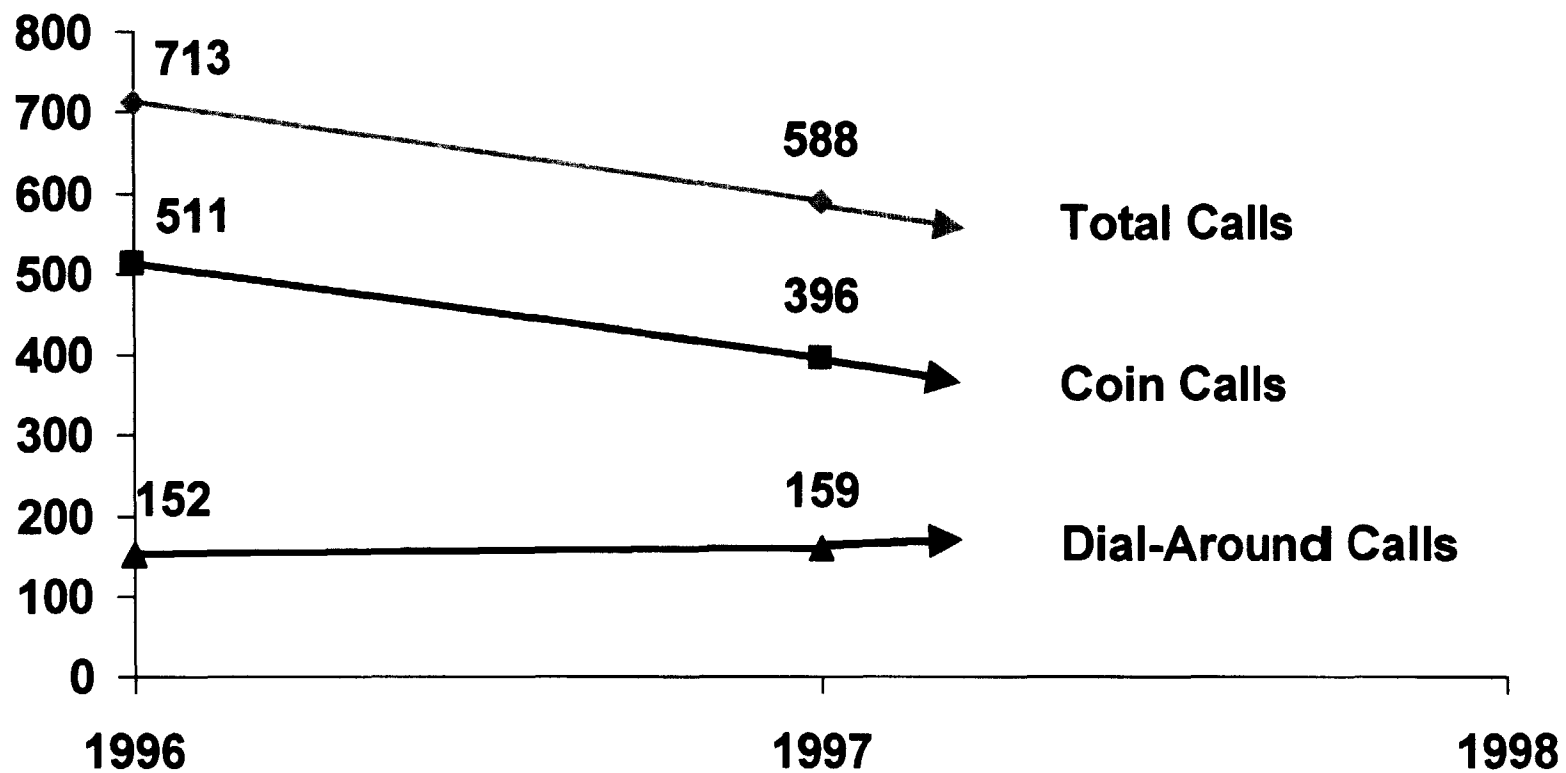
(Calls Per Payphone Per Month)



Source: Frost & Sullivan

# Recent Trend of Independent Payphone Traffic

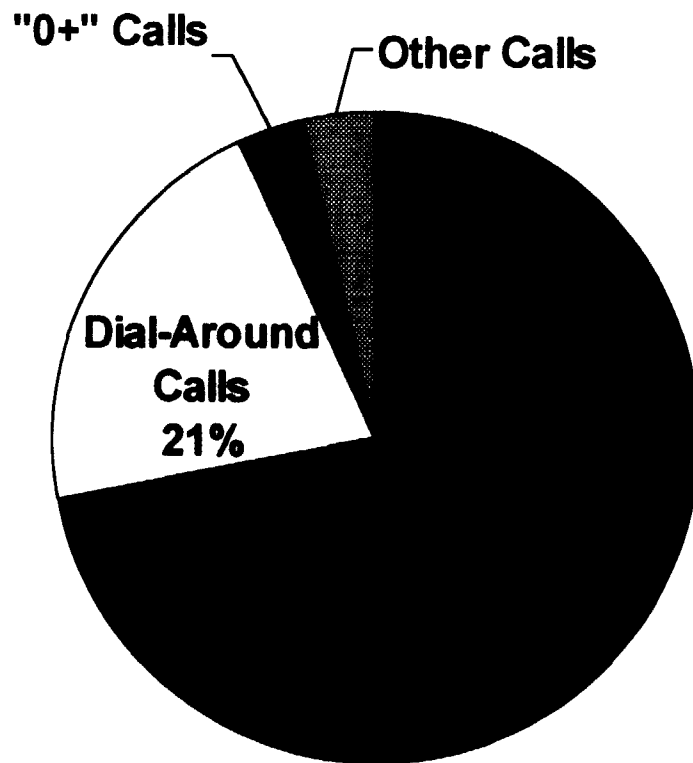
(Calls Per Payphone Per Month)



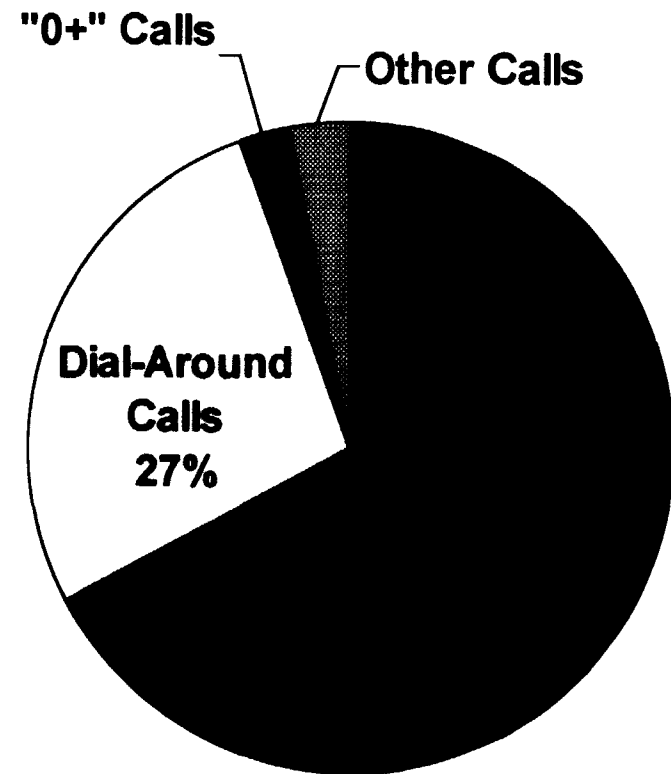
Source: APCC Independent Payphone Survey

# Composition of Independent Payphone Traffic

1996



1997



Source: APCC Independent Payphone Survey

## **I. FAIR “DIAL-AROUND” COMPENSATION IS CRITICAL TO SUSTAIN THE SUPPLY OF PAYPHONES**

- ◆ The Telecom Act mandates fair compensation in order to ensure “widespread deployment of payphone services.”
- ◆ Growth in payphones is limited by the explosion of wireless alternatives.
- ◆ The traditional payphone revenue base is shrinking:
  - 0+ coinless traffic has dramatically declined
  - Coin traffic has declined
  - Only dial-around call volume continues to grow - around 160 calls per phone per month in 1997
  - Dial-around calls currently represent about 27% of payphone calls
- ◆ At the current dial-around rate of 28.4 cents per call, many recently installed payphones cannot recover costs.
- ◆ Many existing payphones are “marginal” at 28.4 cents per call and could not be sustained at lower level of dial-around compensation.
- ◆ Competitive alternatives have effectively capped local coin rates and 0+ commission levels. There is no way to recover the cost of marginal payphones without fair dial-around compensation.
- ◆ A fair dial-around compensation rate will boost payphone service in rural areas.
- ◆ To promote competition and wide deployment of payphones. The FCC should return the compensation rate to the 35-cent range.

## **II. THE COMMISSION’S MARKET-BASED RATIONALE IS FUNDAMENTALLY SOUND**

- ◆ The court of appeals recognized that in a competitive market, a market-based rate could satisfy the fair compensation requirement.
- ◆ Numerous factors ensure that the payphone market is effectively competitive:

- *Nearby payphones*
- *An “elastic” supply of payphone locations*
- *Wireless alternatives*
- *Temporal alternatives*
- *Return customers*
- ◆ Imperfect competition is effective competition – it is *not* monopoly.
- ◆ The market-based approach is superior to cost-of-service ratemaking
  - automatically tracks changes in the market
  - lets market competitors calculate costs
  - self-correcting
- ◆ Cost-of-service ratemaking is inappropriate because:
  - the payphone market is competitive
  - fixed costs make up the bulk of the costs
  - the rate to be set is a per-call rate
  - a pure cost-of-service approach will produce cycles of instability, fewer payphones, and lower quality payphone service
- ◆ The local coin rate can serve as a reasonable market-based proxy. There is a clear supply-side relationship between the costs of local coin calls and dial-around calls: the same equipment is used and the bulk of the costs are shared by both types of calls.
- ◆ *However*, the FCC should correct its implementation mistakes
  - coin mechanism costs should not be subtracted from the local coin rate
  - dial-around collection cost should be added to the local coin rate
- ◆ In summary, the Commission should not stray from its market-based approach to payphone compensation.